



Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2000

February 16, 2001

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Auditors' Report

**To the Members of the Legislative Assembly,
Province of Saskatchewan**

We have audited the statement of financial position of **Saskatchewan Telecommunications** as at December 31, 2000 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year's financial statements were audited by another firm of Chartered Accountants who provided their audit report dated February 21, 2000.

PricewaterhouseCoopers LLP

Chartered Accountants

STATEMENT OF OPERATIONS

For the year ended December 31
(Thousands of dollars)

2000**1999**

Operating revenues	\$ 723,890	\$ 709,952
Operating expenses		
Operating expenses	467,328	473,334
Depreciation and amortization	148,089	148,561
Restructuring and other charges (Note 4)	10,638	33,967
	626,055	655,862
Income from operations	97,835	54,090
Other income	3,307	2,638
Interest and related costs (Note 5)	33,081	35,192
Net income	\$ 68,061	\$ 21,536

STATEMENT OF RETAINED EARNINGS

For the year ended December 31
(Thousands of dollars)

2000**1999**

Retained earnings, beginning of year	\$ 312,560	\$ 302,869
Net income	68,061	21,536
	380,621	324,405
Dividends	86,073	11,845
Retained earnings, end of year	\$ 294,548	\$ 312,560

See Accompanying Notes

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STATEMENT OF FINANCIAL POSITION

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As at December 31 (Thousands of dollars)	2000	1999
Assets		
Current assets		
Accounts receivable	\$ 98,959	\$ 95,323
Inventories	5,793	7,032
Prepayments	6,379	8,138
	111,131	110,493
Property, plant and equipment (Note 6)	843,890	887,854
Other assets (Note 7)	95,046	76,647
	\$ 1,050,067	\$ 1,074,994
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	\$ 13,531	\$ 17,885
Accounts payable	129,853	94,377
Accrued interest	4,931	4,015
Dividend payable	23,830	-
Service billed in advance	22,038	21,477
Current portion of long-term debt (Note 8)	5,330	5,035
	199,513	142,789
Long-term debt (Note 8)	288,811	352,450
Province of Saskatchewan's Equity		
Equity advance (Note 9)	267,195	267,195
Retained earnings	294,548	312,560
	561,743	579,755
	\$ 1,050,067	\$ 1,074,994

See Accompanying Notes
On behalf of the Board

Thomas V. Kehoe

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STATEMENT OF CASH FLOWS

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For the year ended December 31
(Thousands of dollars)

	2000	1999
Cash provided by (used in):		
Operating activities		
Net income before interest paid	\$ 108,516	\$ 58,855
Interest paid	(40,455)	(37,319)
Net income	68,061	21,536
Items not affecting cash from operations (Note 10)	135,952	169,006
Net change in non-cash working capital items	33,298	(10,040)
	237,311	180,502
Financing activities		
Saskatchewan Telecommunications Holding Corporation	(38,782)	28,270
Repayment of Province of Saskatchewan debt	(51,197)	(38,256)
Proceeds from long-term debt	25,330	35,000
Dividend payments	(62,243)	(58,029)
	(126,892)	(33,015)
Investing activities		
Capital expenditures	(104,725)	(149,607)
Other assets	(1,340)	-
	(106,065)	(149,607)
Increase (decrease) in cash	4,354	(2,120)
Bank indebtedness, beginning of year	(17,885)	(15,765)
Bank indebtedness, end of year	\$ (13,531)	\$ (17,885)

See Accompanying Notes

Note 1 -- The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, Internet, wireless, text and image products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Act, and as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

In October 1998 the Federal Government granted the Corporation exemption from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) until June 30, 2000. In the period leading up to the expiration of the exemption and during the remainder of 2000, the Corporation continued to proactively manage the transition and implement the changes required to align with national regulatory and competition models. Regulation by the CRTC will have an impact on the Corporation's future pricing, products, service development and financial performance.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 -- Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Property, plant and equipment

Property, plant and equipment is recorded at original cost including materials, services, and direct labour.

Depreciation is computed on the straight-line, equal-life group method using rates determined by a continuing program of engineering studies for each class of property in service.

When depreciable telecommunications property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

Revenues

Operating revenues from the sale of services are recognized when services are performed. Equipment sales are recognized at the point of sale.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Defined Benefit Pension Plan

Effective January 1, 2000, the Corporation prospectively applied the new accounting recommendations for employee future benefits. When the change in accounting policy occurred, a transitional asset was determined. The transitional asset is being amortized over the average remaining service period of active employees expected to receive benefits.

The cost of benefits is determined using the accrued benefit method prorated on service and management's best estimate of actuarial assumptions. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees. The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and the amount of expected benefits payments.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains and losses on long-term monetary items are included in other assets and amortized on a straight-line basis over the remaining life of the related assets and liabilities.

Financial instruments

Any premiums or discounts with respect to financial instrument contracts are deferred and amortized to earnings over the contract period.

Note 3 -- Reorganization

On June 1, 2000, the Holdco transferred the net assets of \$50.3 million associated with its SaskTel Wireless division to the Corporation. The transfer was accounted for using the pooling of interest method. Included in the liabilities was \$25.3 million of long-term debt. An equity advance of \$17.2 million was recorded for additional equity financing from Holdco. The reorganization represents a transfer of assets and liabilities by entities under common control and as such the financial statements have been restated to give retroactive effect to the reorganization. All assets and liabilities were transferred at the net book value. The reorganization resulted in a related party adjustment of \$33.1 million being credited to retained earnings.

Note 4 -- Restructuring and other charges

The Corporation recorded restructuring and other charges of \$10.0 million and \$0.6 million, respectively. The restructuring charges include costs relating to the employee voluntary separation program and adjustments to prior year's early retirement programs. Other charges relate to the write-down of infrastructure assets.

In 1999, restructuring and other charges of \$34.0 million pertained to the costs of the early retirement program offered in 1999, a write-down of equipment and infrastructure assets, and non-recoverable costs to implement local service competition and provide local number portability.

Note 5 -- Interest and related costs

	2000	1999
	(Thousands of dollars)	
Interest expense	\$ 37,886	\$ 38,388
Amortization of unrealized net foreign currency losses	1,322	473
Amortization of discount on long-term debt	175	171
	39,383	39,032
Less: Sinking fund earnings	6,302	3,840
	\$ 33,081	\$ 35,192

Note 6 -- Property, plant and equipment

	2000	1999
	(Thousands of dollars)	
Buildings, plant and equipment	\$ 2,093,861	\$ 2,021,927
Plant under construction	95,843	120,875
Materials and supplies	9,950	11,025
Land	3,877	3,834
	2,203,531	2,157,661
Less: Accumulated depreciation	1,359,641	1,269,807
	\$ 843,890	\$ 887,854

The composite depreciation rate on the average depreciable telecommunications property in service was 7.1% in 2000 (1999 - 7.3%).

As at December 31, 2000, the ratio of accumulated depreciation to depreciable telecommunications property was 65.0 % (1999 - 62.9%).

Note 7 -- Other assets

	2000	1999
	(Thousands of dollars)	
Deferred pension costs	\$ 57,755	\$ 42,149
Unrealized net foreign currency losses on long-term debt	25,648	22,008
Competition implementation costs	7,455	7,818
Unamortized discount on long-term debt	1,540	1,686
Other	2,648	2,986
	\$ 95,046	\$ 76,647

Note 8 -- Long-term debt

	<u>Years to Maturity</u>	<u>Average Fixed Interest Rate</u> (%)	2000 (Thousands of dollars)	1999
Province of Saskatchewan:				
Canadian dollar issues	1 - 5 years	12.73	\$ 49,561(a)(b)	\$ 82,547
Canadian dollar issues	6 - 10 years	9.99	66,974(b)	66,974
Canadian dollar issues	29 years	5.00	35,000(c)	35,000
U.S. dollar issue	20 years	9.38	149,950(d)	144,330
			301,485	328,851
<u>Less: Sinking funds</u>			31,061(e)	50,781
Total Province of Saskatchewan debt			270,424	278,070
Due to Holdco			18,495 (f)	74,472
<u>Other</u>			5,222	4,943
Total long-term debt			294,141	357,485
<u>Less: Current portion</u>			5,330	5,035
			\$ 288,811	\$ 352,450

(a) Long-term debt totaling \$20,605,000 contains call provisions whereby the Corporation may call the debt on specific dates as outlined in the terms and conditions.

(b) Long-term debt totaling \$95,930,000 is subject to redemption at the option of the holder on six months notice as outlined in the terms and conditions.

(c) Long-term debt totaling \$35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.

(d) Represents long-term debt repayable in U.S. funds having a U.S. dollar face value of \$100,000,000 converted to \$115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 2000 of 1.4995 (1999 - 1.4433).

(e) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of \$13,911,994 recorded at \$20,861,036 Canadian dollar equivalent.

(f) The balance consists of funds received from Holdco bearing an interest rate of the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. Accordingly, the debt has been classified as long-term.

Sinking fund installments and long-term debt repayments (net of sinking funds) due on outstanding debt over the next five years are as follows:

	(Thousands of dollars)
2001	\$ 5,330
2002	\$ 2,629
2003	\$ 12,167
2004	\$ 30,456
2005	\$ 1,500

Note 9 -- Equity advance

The Corporation's equity financing is in the form of equity advances from Crown Investments Corporation of Saskatchewan (CIC) and Holdco.

Note 10 -- Items not affecting cash from operations

	2000	1999
	(Thousands of dollars)	
Depreciation and amortization	\$ 148,089	\$ 148,561
Pension income on defined benefit plan	(15,605)	(10,303)
Restructuring and other charges	4,064	33,967
Sinking fund earnings	(3,656)	(3,840)
Premium and foreign exchange adjustments	1,321	1,052
Other	1,739	(431)
	\$ 135,952	\$ 169,006

Note 11 -- Financial instruments

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk. In addition, the Corporation does not anticipate non-performance by any counterparties to its derivative financial instruments. The Corporation deals only with those financial institutions whose credit rating is A or better, and monitors the credit risk and credit standing of counterparties on a regular basis. The Corporation manages its exposure so that there is no substantial concentration of credit risk resulting from cross currency swaps and forward contracts.

Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities.

At December 31, 2000 and 1999, the carrying value of all financial instruments approximates fair value with the following exceptions (thousands of dollars):

	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity in sinking funds	\$ 31.061	\$ 32.277	\$ 50.781	\$ 50.800
Long-term debt, Province of Saskatchewan	\$ 301.485	\$ 362.941	\$ 328.851	\$ 384.222

Note 12 -- Pension plans

2000 **1999**
(Thousands of dollars)

Details of the defined benefit pension plan are as follows:

Plan assets at fair value	\$ 807,363	\$ 770,679
Accrued benefit obligation	652,308	620,033
Surplus	\$ 155,055	\$ 150,646
Employee contributions	\$ 2,792	\$ 2,975
Employer contributions	\$ -	\$ -
Benefits paid	\$ 36,495	\$ 34,161

The significant actuarial assumptions used to determine the amounts under the defined benefit pension plan are as follows:

	2000	1999
Discount rate	6.60%	7.25%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Periodic reviews of plan assumptions occur to determine whether the assumptions remain valid. Environmental factors may cause changes to these actuarial assumptions, which may result in an increase in the accrued benefit obligation.

Included in the defined benefit pension plan assets are \$7.6 million (1999 - \$6.7 million) of investments in related parties.

	2000	1999
	(Thousands of dollars)	
Pension expense (income) for the year are as follows:		
Defined contribution pension plan	\$ 9,625	\$ 9,138
Defined benefit pension plan	\$ (15,605)	(10,303)

Note 13 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2000	1999
	(Thousands of dollars)	
Operating revenues	\$ 65,505	\$ 54,693
Operating expenses	31,038	41,411
Accounts receivable	7,690	5,934
Accounts payable	44,026	5,387
Capital expenditures	483	736

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 14 -- Commitments

The future minimum lease payments under the operating leases of the Corporation are as follows:

	(Thousands of dollars)
2001	\$ 19,350
2002	\$ 19,150
2003	\$ 18,950
2004	\$ 18,750
2005	\$ 18,750

The above payments include \$20.2 million for leases with related parties.

Note 15 -- Comparatives

1999 figures have been reclassified to conform to the current year's presentation.